

Testimony of Mark Pawlicki
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House Natural Resources Subcommittee on National Parks, Forests,
and Public Lands
“The Future of the Forest Economy”
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Good morning Mr. Chairman and members. I am Mark Pawlicki, Director of Government Affairs for Sierra Pacific Industries, and I am a Registered Professional Forester in the State of California. We appreciate the opportunity to provide our input to the Subcommittee today on the future of the forest economy.

Sierra Pacific Industries is a family owned business with operations in California and Washington State. We have 15 sawmills plus several remanufacturing plants, and we also manufacture wood windows. We are the second largest lumber producer in the United States. Recently, SPI announced it will close three sawmills in California. There are a number of reasons for these closures, including the difficult lumber market, but the largest reason is the lack of availability of logs from the nearby national forests.

In Quincy, we had employed about 310 people prior to the closure of our small-log mill on May 4th. Now, our employment there has dropped to about 160. The 150 layoffs include not only mill employees, but also some from our electric power generation plant. It is likely that we will need to reduce the capacity of that plant due to the fall-off in fuel generated from our mills. This is renewable power that uses wood byproducts from the mills and from forest thinning projects as their source of fuel. The plant here has the capacity to product 27 megawatts of power – enough to run 27,000 homes. We are not sure yet how much energy capacity will be lost as a result of the mill closure. However, it is significant to note that this is a plant that produces green power which offsets the use of fossil fuels.

In addition, we employ a number of loggers and truckers in this area; the U.S. Forest Service estimates that there are about 1.6 indirect jobs for each direct forest-related job in this region. So, the loss is much greater than just our employees.

This is a particularly ironic situation in that we built the Quincy mill in 1996 to accommodate the smaller logs that were anticipated to come from the Quincy Library Group process which you have heard about from others today. Although this was a very good example of how local industry, environmentalists, and others can work together to find common ground for recommendations on how to manage the national forests, unfortunately other groups have virtually ground the process to a halt through appeals and litigation.

SPI has very little of its own timberlands in the Quincy area. Most of the wood supplying our mills comes from the Plumas, Lassen, and Tahoe National Forests which form the dominant land ownership base in this area. As you have heard, these forests are tremendously overstocked and are at very high risk of catastrophic wildfires. The QLG process is designed to alleviate that threat through the construction of fuel breaks and active forest management, but only a fraction of the project has been carried out to date. From the standpoint of sawlogs, the QLG process has only produced about 25 percent of its targeted harvest volume since the program began. In the QLG project area about 194 million board feet of timber are currently stalled due to litigation and appeals.

In Quincy, we have a large-log mill and a small-log mill. Together, these mills need a volume of 150 million board feet per year to operate. Of that volume, about half needs to come from the national forests – particularly the volume to run the small-log mill. Since the litigation has tied up the national forest projects in the Quincy area, we had been transporting our own logs long distances, and past another SPI mill in Burney, to run both mills in Quincy. We did this for an extended period hoping that the litigation of the QLG projects would be remedied in the courts and we could begin to harvest timber from the thinning projects closer to Quincy. However, as the litigation and appeals continue to block harvests, the weak lumber market makes it impossible to continue to transport small logs for long distances on a sustainable basis. We can transport larger logs for the other Quincy mill longer distances because we can recover greater value from them in the manufacturing process.

And it hasn't stopped in Quincy. We announced two more mill closures – in Camino and Sonora, in the central Sierra. Those mills did not benefit from the QLG process, but were dependent on the sale of timber from other national forests. There, too, SPI does not have enough of its own timberland to supply these mills with logs. They need wood sourced from the national forests as well as other private lands to keep running. But lawsuits have plagued the Forest

Service's timber sale program in those areas as well. In fact, the agency reports that about 400 million board feet of timber is currently tied up in California as a result of litigation – that's enough to run five average-sized sawmills for a year.

Combined, the closure of these other two mills will put an additional 310 people out of work this summer. There will be hundreds more jobs lost in those communities as our unemployed workers either move out or reduce their expenditures. In total, it can reasonably be estimated that the loss of 460 jobs at SPI will ultimately put over 1,000 people will be out of work. These are rural communities with very few job opportunities for laid-off workers. Further, the mill jobs are typically among the highest paying jobs in these communities, with family wages as well as medical and retirement benefits.

Much has been said about the economic conditions we are now in. Clearly, lumber prices have taken a dramatic fall along with the slowdown in housing. This is having a significant impact on companies like SPI whose costs of production have gone up in recent years. But when you look at the three mills we are closing in California, these are the plants that have experienced the greatest reduction in their raw material supply. Other SPI mills are running in this state, and none of our three Washington mills have closed. This should tell you that although the weak market is a factor, it is not the biggest reason for closing mills – the lack of market-priced timber supply is the largest reason for the closures.

In addition to the lack of availability of federal timber, there has been a reduction in the amount of private timber for sale in California. Much of the reduction on private lands can be attributed to the increasing costs of getting permits to harvest at a time when the market for timber is dropping. The cost of managing private timber has escalated so high in recent years that many landowners are getting out of the timber business. When it costs \$30,000 to develop a Timber Harvesting Plan on private lands there quite often is not enough value in the timber to cover those costs. So what does a landowner do? He or she considers alternatives such as converting their forest lands to other uses. That doesn't help to run mills, and it certainly changes the environment.

But the market will come back – it always does. As it now stands, and unless things change, we won't have a sufficient supply of timber available to meet the demand. Whether it is the litigation of federal timber sales, or the reduction in the amount of private timber for sale, the result is the same for a mill – they won't be in a position to take advantage of the growing demand for wood

products. The market will be won by our competitors in other states and nations. Meanwhile, the national forests will continue to be a fire hazard and will remain in an overstocked state.

SPI will leave the equipment in its closed mills. We have no plans to remove parts or sell these properties at this time. We hope that conditions will change and we will one day be able to reopen all three of the mills that are closing. For that to happen, though, there must be a solution that allows national forest timber to be sold at the levels planned by the agency. There must also be a way to harvest fire-killed timber before it decays beyond the point of usefulness. In addition, changes must be made in state law to encourage landowners to maintain their forests for timber production and compatible uses rather than conversion.

In our view, Congress must step in and find ways to encourage the Forest Service to get back into the business of selling timber. Funding the timber sale program will result in positive returns to the treasury and will improve the health of the national forests, while benefiting county schools and roads that are desperately in need of repair.

The science is clear about what needs to be done to protect the national forests in California from catastrophic wildfires. The forests must be thinned on a continuous basis and maintained at levels that will not support stand-destroying fires. This means cutting out smaller-diameter ladder fuels as well as some large-diameter trees to eliminate both horizontal and vertical continuity. Research from the U.S. Forest Service concludes that forests in the Sierra need to be thinned to a level that results in a 30%-40% canopy closure to adequately reduce the risk of wildfire. This is also consistent with the needs of various wildlife species, including the spotted owl.

Although there are additional mechanisms to address the management of the national forests such as biomass removal, there must be an industry infrastructure in place to economically make use of materials removed from the forests. The only viable way to treat the millions of acres of over-stocked national forest lands in California and elsewhere is to take that material to mills and co-generation plants. And it must be done on a consistent, reliable, long-term basis before industry will make the necessary investments in these facilities. Other types of operations such as pellet plants are being examined, but they, too, must have a reliable source of raw material.

There are many sad stories to tell about the impacts these mill closures have had on people's lives. Some have found other work; some have moved out of the area; while some fall into despair, and others ponder what to do next. It is clearly a very difficult and life-altering situation for many. The owners of SPI understand that and want to bring people back to work if they are able to.

In summary, we are pleased to present our views here today and are grateful that the Subcommittee is engaged in this issue. We are willing to work with you to bring about the changes necessary for this and other communities to thrive again.

I will be glad to answer any questions that the members might have.

Thank you.